COFINA FISCAL PLAN

AS SUBMITTED TO THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

AUGUST 29, 2018

RICARDO ROSSELLÓ NEVARES
GOVERNOR OF PUERTO RICO

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– Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;
– The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes María and Irma;
– The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;
– The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;
– The timeline for completion of the work being done by the Puerto Rico Electric Power Authority ("PREPA") to repair PREPA's electric system and infrastructure and the impact of any future developments or issues related to PREPA's electric system and infrastructure on Puerto Rico's economic growth;
– The impact of the measures described herein on outmigration;
– The impact of the resolution of any pending litigation in the Title III cases; and
– The occurrence or nonoccurrence of execution of a plan support agreement and plan term sheet for COFINA, agreement on the other definitive documentation required to implement the transactions contemplated thereby, and approval of the Title III Court.

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List of Acronyms and Key Terms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
ABT	Additional Bonds Test
BNYM	Bank of New York Mellon
CAB	Capital Appreciation Bonds
CBO	Congressional Budget Office
CDBG-DR	Community Development Block Grant- Disaster Recovery
CIB	Current Interest Bonds
CINE	Puerto Rico Motion Picture Arts, Sciences and Industry Development Corporation (Spanish acronym)
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)
COR3	Central Office of Recovery, Reconstruction and Resiliency
CW	Commonwealth of Puerto Rico
DHS	Department of Homeland Security
DRF	Disaster Relief Fund
DSA	Debt Sustainability Analysis
EAI	Puerto Rican Economic Activity Index
FAM	Municipal Administration Fund (Spanish Acronym)
FEMA	Federal Emergency Management Agency
FY	Fiscal-Year
GDB	Government Development Bank for Puerto Rico
GDP	Gross Domestic Product
GNP	Gross National Product
HSOAC	Homeland Security Operational Analysis Center
HUD	United States Department of Housing and Urban Development
IMF	International Monetary Fund
MADS	Maximum Annual Debt Service
PAN	Nutritional Assistance Program
PFC	Puerto Rico Public Finance Corporation
POA	Plan of Adjustment
PRASA	Puerto Rico Aqueduct and Sewer Authority
PREPA	Puerto Rico Electric and Power Authority
PRHTA (or HTA)	Puerto Rico Highway and Transportation Authority
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
PSTBA	Pledged Sales Tax Base Amount
RSA	Restructuring Support Agreement
SUT	Sales and Use Tax
TRAN	Tax and Revenue Anticipation Notes
UPR	University of Puerto Rico
WEO	World Economic Outlook

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EXECUTIVE SUMMARY

Questions regarding the Commonwealth and COFINA's respective ownership interests in the sales-and-use tax revenue pledged as collateral for the existing COFINA bonds have been at the center of Puerto Rico's Title III cases since their commencement in May 2017. Resolution of this issue (the "Commonwealth-COFINA Dispute") is essential in order for Puerto Rico's debt restructuring to move forward.

In order to expedite resolution of the Commonwealth-COFINA Dispute, the Oversight Board proposed the appointment of representatives for the Commonwealth and COFINA. Under the Stipulation and Order entered by the Title III Court on August 10, 2017, the Official Committee of Unsecured Creditors was appointed as the agent to the Commonwealth (the "Commonwealth Agent") and Bettina Whyte was appointed as the agent to COFINA (the "COFINA Agent.")

On June 5, 2018, the Commonwealth Agent and COFINA Agent announced an agreement in principle (the "June Agent Agreement") resolving the Commonwealth-COFINA Dispute. The June Agent Agreement is premised on splitting the "Pledged Sales Tax Base Amount" ("PSTBA") between the Commonwealth and COFINA. The PSTBA is an amount established under Act 91-2006, as amended, and the Sales Tax Revenue Bond Resolution, as amended and restated on June 10, 2009 (the "Bond Resolution"), that currently must be received by COFINA from 5.5% of the SUT before the Commonwealth can receive any of the other 5.5% SUT. Under the June Agent Agreement, COFINA will receive (a) 53.65% of the yearly scheduled PSTBA beginning with payments made on July 1, 2018 and (b) all of the cash held in trust at Bank of New York Mellon, as trustee under the Bond Resolution, as of June 30, 2018 (approximately $1.2 billion). The Commonwealth will receive the remaining 47.35% of the PSTBA.

After the announcement of the June Agent Agreement, the Oversight Board and AAFAF began negotiating the terms of a COFINA plan of adjustment with certain key COFINA creditor constituencies. On August 8, 2018, Governor Rosselló Nevares announced that an agreement in principle had been reached on the terms of a restructuring of COFINA's outstanding bond debt (the "August Agreement"), the material terms of which, as of the date hereof, are summarized in Chapter 4 of this Fiscal Plan. Governor Rosselló stated that the "agreement represents a significant step in restructuring Puerto Rico's debts and reaffirms once again the credibility of our efforts."[1] The August Agreement also incorporates the proposed PSTBA split reflected in the June Agent Agreement.

In connection with efforts to consummate the transactions contemplated by the August Agreement, the Oversight Board has requested a standalone fiscal plan for COFINA for FY19-23.

The Oversight Board and AAFAF are currently working with COFINA creditors on the terms of a plan support agreement and term sheet in order to implement the August Agreement. The August Agreement remains subject to finalization and execution of the plan support agreement and plan term sheet, agreement on other definitive documentation required to implement the transactions

[1] *Governor Rosselló Announces Agreement with COFINA Bondholders* (Aug. 8, 2018), *available at* http://www.aafaf.pr.gov/assets/press-governor-rossello-announces-agreement-cofina-bondholders.pdf

contemplated thereby, and approval of the Title III Court. There can be no assurance that any of the foregoing events will occur, or that the facts and circumstances regarding such transactions will not materially change. Many of the provisions and assumptions herein are premised on approval of the transactions described herein, and they may change if circumstances warrant; such provisions and assumptions may be context-dependent. Accordingly, without limiting any of the disclaimers set forth herein, nothing herein shall be construed as, or be deemed to be, an admission or concession on the part of any Party in any respect, and nothing herein is intended to, or shall be construed or deemed to, in any manner waive, limit, impair or restrict the ability of any Party to protect and preserve its rights, remedies and interests, including, without limitation, the right to amend this Fiscal Plan.

PART I: The Sales and Use Tax and COFINA

Chapter 1.

SALES & USE TAX DESCRIPTION

The Commonwealth's sales and use tax ("Commonwealth SUT" or "SUT") was originally imposed in 2006 pursuant to Act No. 117-2006. The SUT in turn replaced the prior 5.0% (effective 6.6%) general excise tax on imported goods and the 3.6% general excise tax on goods manufactured in Puerto Rico.

The SUT is imposed on the sale, use, consumption and storage of taxable items, which include tangible personal property, taxable services, admission rights and certain other types of transactions covering separable and identifiable taxable items which are sold for a single price, subject to certain exceptions and limitations. Certain items, such as fuel, crude oil and petroleum products and vehicles, however, remain subject to the excise tax previously applicable to such items, and are not subject to the SUT.

The Commonwealth SUT had an original tax rate of 5.5%. Act 117-2006 also authorized each municipal government to impose a sales and use tax of 1.5% (the "Municipal SUT"), which generally has the same tax base, exemptions (except for unprocessed foods) and limitations as those provided for the Commonwealth SUT. Act 18-2014 lowered the portion of the Municipal SUT allocated to the municipalities to 1.0% and allocated the other 0.5% to the Municipal Administration Fund ("FAM"), a fund created to provide a financial mechanism to finance the debt of the municipalities.

In 2013, Act No. 40-2013 eliminated various exemptions to the SUT, which broadened its base, and Act No. 46-2013 required the declaration and payment of the SUT on imported goods at the time of their entry into Puerto Rico.

On May 29, 2015, the Commonwealth enacted Act No. 72-2015 that, among other things, (i) increased the total Commonwealth SUT rate to 10.5% effective on July 1, 2015, with the net 0.5% increase being for the benefit of the General Fund, and (ii) eliminated several exemptions.

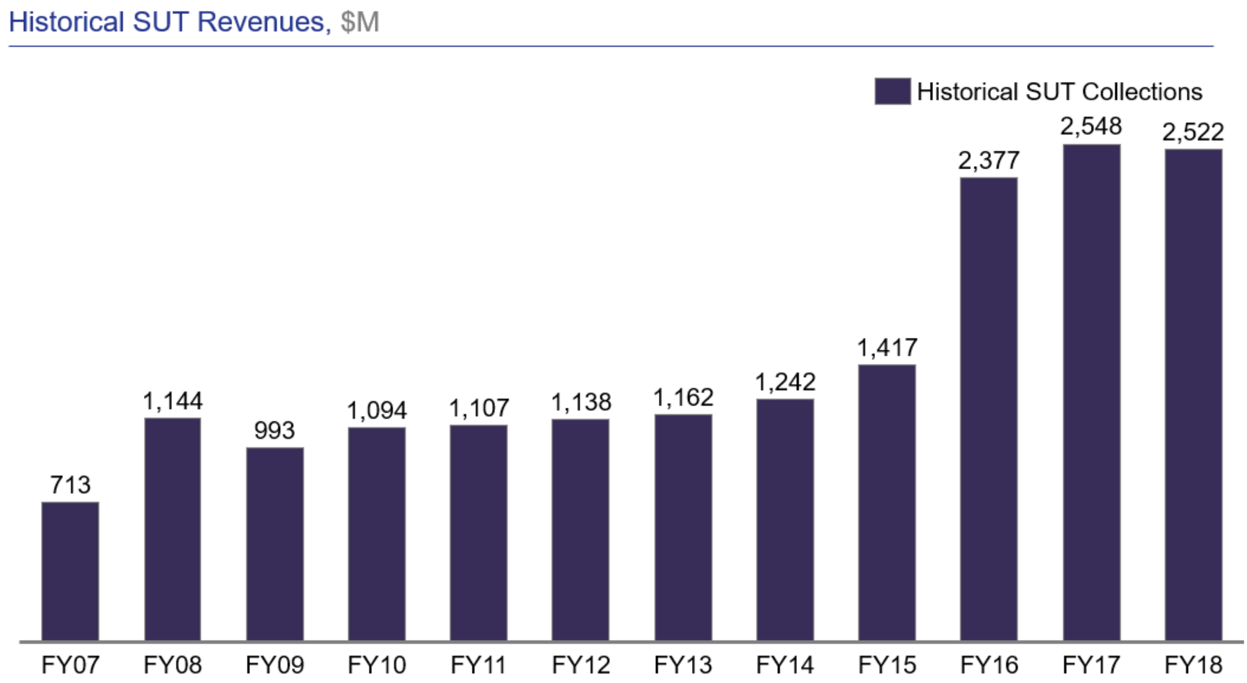
Although Act 72-2015 has experienced various amendments since its original enactment, the Commonwealth SUT remains at 10.5%. There is also a special 4.0% SUT that is generally applicable to business-to-business services and designated professional services. Exhibit 1 shows the SUT collections since inception of the tax.

Municipal Sales and Use Tax

The Municipal Sales and Use Tax, like the Commonwealth SUT, is imposed on the sale, use, consumption and storage of taxable items, which include tangible personal property, taxable services, admission rights and certain other types of transactions covering separable and identifiable taxable items which are sold for a single price, subject to certain exceptions and limitations. The Municipal Sales and Use Tax is imposed at a rate of 1.0% of the amount of the covered transaction. The Municipal SUT is not part of the Government's revenues nor is it pledged to COFINA.

The amount of SUT collected depends on various factors, including economic conditions. For more information on Puerto Rico's economic conditions and forecast, see Part III.

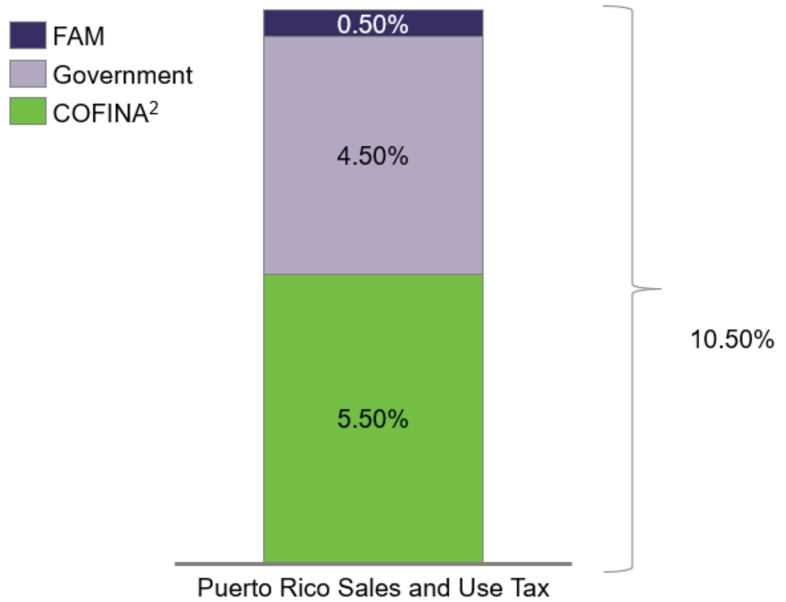
EXHIBIT 1: SALES AND USE TAX HISTORICAL COLLECTIONS[2]



[2] SUT historical collections source: http://www.hacienda.gobierno.pr/inversionistas/estadisticas-y-recaudos-statistics-and-revenues/ingresos-del-impuesto-sobre-ventas-y-uso-ivu-sales-and-use-tax-sut-revenues

EXHIBIT 2: ALLOCATION OF SALES AND USE TAX

Allocation of Sales and Use Tax[1]



[1] $3.2 million of SUT revenues flow to CINE every year.
[2] Up to an annual cap of $753 million in 2018, which grows by 4.0% each year to a maximum of $1.85 billion.

PUERTO RICO SALES TAX FINANCING CORPORATION (COFINA)

Chapter 2

COFINA was created in 2006 pursuant to the provisions of Act No. 91-2006, as amended ("Act 91"), for the purpose of financing the payment of certain appropriation backed debt outstanding as of June 30, 2006 payable to GDB and PFC. In 2009, the Legislative Assembly of the Commonwealth expanded the purposes for which COFINA was created to include, among other things, the payment or financing of Commonwealth operational expenses for certain subsequent fiscal years, and increased from 1% to 2.75% (one-half of the then applicable sales and use tax rate of 5.5%) the portion of the Commonwealth sales and use tax ("Commonwealth SUT") that is transferred to COFINA (see Exhibit 3 for total debt outstanding). In 2014, Act No. 18-2014 lowered the municipal sales and use tax by 0.5% and increased the Commonwealth SUT by the same amount (with the revenues from the 0.5% remaining for the benefit of the Municipal Administration Fund). The Commonwealth then increased the aggregate rate of the Commonwealth SUT from 6.0% to 10.5% by imposing a sales and use tax surcharge of 4.5%. The revenues attributable to such increase are the property of the Commonwealth and are not available to COFINA. More recently, through Act No. 84-2016 the Commonwealth reset the portion of the SUT allocated to COFINA to the original 5.5%.

Act 91 currently requires that the following amounts of the Commonwealth SUT be transferred to COFINA, whichever is greater: (i) a minimum fixed amount, referred to as the "Pledged Sales Tax Base Amount," and (ii) the product of the amount of the Commonwealth SUT collected during such Fiscal Year multiplied by a fraction, the numerator of which is 2.75% and the denominator of which is 5.5% (the greater of (i) and (ii) being referred to as the "Pledged Sales Tax"). The Pledged Sales Tax is the only source of funds available to pay debt service on COFINA's senior and first subordinate bonds.

The Statement of Motives of Act No. 56-2007, which amended Act 91, states that it is the intent of the Legislative Assembly that the Pledged Sales Taxes not be made subject to the Commonwealth "clawback." Act 91 provides that such funds (i) shall be the property of COFINA, (ii) shall not be deposited in the General Fund and (iii) shall not constitute "available resources" of public debt (i.e., holders of the Commonwealth's General Obligation bonds and debt guaranteed by a pledge of the Commonwealth's full faith and credit) as set forth in Section 8 of Article VI of the Puerto Rico Constitution.

Once the amounts required to be deposited with the COFINA trustee have been transferred, the third-party financial institution will transfer to the Commonwealth an amount equal to that transferred to COFINA and, once this threshold has been reached allocate tax revenues equally between COFINA and the Commonwealth. As a result, the Pledged Sales Tax is never on deposit in the General Fund or the Secretary of the Treasury's Treasury Single Account.

Pursuant to Act 91, 1.0% of the original Commonwealth SUT was assigned to the Puerto Rico Sales Tax Financing Corporation ("COFINA"). In 2009, Act 91 was amended to increase the portion of the SUT allocated to COFINA to 2.75% (one-half of the then applicable sales and use tax rate of 5.5%). The actual amount of sales taxes to be transferred to COFINA is, however, the greater of (i) a minimum fixed amount, referred to as the "Pledged Sales Tax Base Amount," and (ii) the product of the amount of the Commonwealth SUT collected during such Fiscal Year multiplied by a fraction, the numerator of which is 2.75% and the denominator of which is 5.5%.

On October 9, 2013, an amendment to Act No. 91 was signed into law which increased from 2.75% to 3.50% the portion of the Pledge Sales Tax deposited in the Dedicated Sales Tax Fund and expanded the Authorized Uses of Corporation's bond proceeds to include, among others, the refinancing of Bond Anticipation Notes and the financing of the Commonwealth's deficit for fiscal years 2013, 2014 and 2015. Regardless of the level of Commonwealth Sales Tax collections, Act No. 91 requires that in each fiscal year all collections of the Commonwealth Sales Tax be deposited in the Dedicated Sales Tax Fund until an amount equal to the Pledged Sales Tax Base Amount is deposited before any collections of the Commonwealth Sales Tax are deposited in the Commonwealth's General Fund.

Governance

Article 706, Board of Directors of Other Government Entities, of the GDB Debt Restructuring Act 109-2017, as amended, states the following, "In anticipation of the final wind-down of GDB pursuant to the GDB Fiscal Plan, notwithstanding any other law to the contrary, in such cases where the enabling statute of a public corporation or instrumentality provides that the Board of Directors of such entity shall be the same as the Board of Directors of GDB or otherwise requires that any member of the Board of Directors of GDB also be a member of the Board of Directors of such entity, the Governor shall be authorized to appoint to the Board of Directors of such other entity individuals who are not members of the Board of Directors of GDB, which shall serve for the terms determined by the Governor. The Boards of Directors of such entities shall continue to be comprised of the same number of directors".

EXHIBIT 3: DEBT OUTSTANDING AS OF MARCH 31, 2018

id.	Issuance Date	Senior Bonds Series Description		As of 3/31/2018 No Cap Int on CABs		As of 3/31/2018 With Cap Int on CABs		As of 3/31/2018 At Maturity for CABs
1	31-Jul-07	Sales Tax Revenue Bonds, Series 2007 A	$	2,367,603,572.60	$	3,537,345,785.87	$	15,594,830,000.00
2	31-Jul-07	Sales Tax Revenue Bonds, Series 2007 B	$	1,333,101,779.90	$	1,466,562,938.24	$	1,783,520,000.00
3	20-Dec-07	Sales Tax Revenue Bonds, Series 2007 C	$	499,996,627.90	$	571,016,770.51	$	806,540,000.00
4	26-Jun-08	Sales Tax Revenue Bonds, Series 2008 A	$	737,046,992.35	$	936,770,120.53	$	1,489,200,000.00
5	18-Jun-09	Sales Tax Revenue Bonds, Senior Series 2009 C	$	237,875,000.00	$	237,875,000.00	$	237,875,000.00
6	13-Dec-11	Sales Tax Revenue Bonds, Senior Series 2011 C	$	1,006,474,702.00	$	1,053,887,086.11	$	1,440,725,000.00
7	13-Dec-11	Sales Tax Revenue Bonds, Senior Series 2011 D	$	91,155,000.00	$	91,155,000.00	$	91,155,000.00
		Total Senior COFINA Bonds	**$**	**6,273,253,674.75**	**$**	**7,894,612,701.27**	**$**	**21,443,845,000.00**

id.	Issuance Date	Senior Bonds Series Description		As of 3/31/2018 No Cap Int on CABs		As of 3/31/2018 With Cap Int on CABs		As of 3/31/2018 At Maturity for CABs
1	18-Jun-09	Sales Tax Revenue Bonds, First Subordinate, Series 2009 A	$	3,537,930,700.00	$	3,649,249,388.01	$	4,128,775,000.00
2	25-Jun-09	Sales Tax Revenue Bonds, First Subordinate, Series 2009 B	$	1,179,425,799.20	$	1,374,668,466.24	$	1,654,560,000.00
3	9-Feb-10	Sales Tax Revenue Bonds, First Subordinate, Series 2010 A	$	1,808,757,271.30	$	1,995,748,952.57	$	2,461,815,000.00
4	30-Jun-10	Sales Tax Revenue Bonds, First Subordinate, Series 2010 C	$	1,619,404,596.60	$	1,682,571,257.21	$	2,136,770,000.00
5	30-Jun-10	Sales Tax Revenue Bonds, First Subordinate, Series 2010 D	$	89,435,000.00	$	89,435,000.00	$	89,435,000.00
6	30-Jun-10	Sales Tax Revenue Bonds, First Subordinate, Series 2010 E	$	92,755,000.00	$	92,755,000.00	$	92,755,000.00
7	23-Nov-11	Sales Tax Revenue Bonds, First Subordinate, Series 2011 A	$	734,795,573.95	$	934,137,795.90	$	4,201,550,000.00
8	23-Nov-11	Sales Tax Revenue Bonds, First Subordinate, Series 2011 B	$	45,620,000.00	$	45,620,000.00	$	45,620,000.00
		Total Subordinated COFINA Bonds	**$**	**9,108,123,941.05**	**$**	**9,864,185,859.93**	**$**	**14,811,280,000.00**
		Total COFINA Bonds Outstanding	**$**	**15,381,377,615.80**	**$**	**17,758,798,561.20**	**$**	**36,255,125,000.00**

Chapter 3. THE COFINA SETTLEMENT[3]

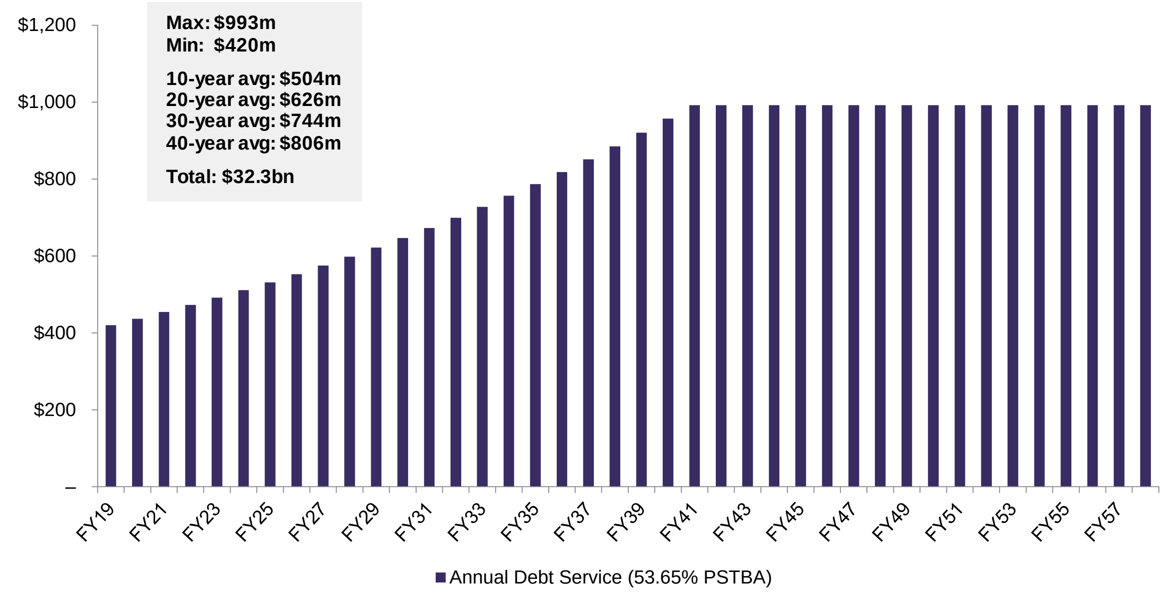
The August Agreement remains subject to finalization of a plan term sheet, execution of a plan support agreement, agreement on the other definitive documentation required to implement the transactions contemplated thereby, and approval of the Title III Court. There can be no assurance that any of the foregoing events will occur, or that the facts and circumstances regarding such transactions will not materially change. Many of the provisions and assumptions herein are premised on approval of the transactions described herein, and they may change if circumstances warrant; such provisions and assumptions may be context-dependent. Accordingly, without limiting any of the disclaimers set forth herein, nothing herein shall be construed as, or be deemed to be, an admission or concession on the part of any Party in any respect, and nothing herein is intended to, or shall be construed or deemed to, in any manner waive, limit, impair or restrict the ability of any Party to protect and preserve its rights, remedies and interests, including, without limitation, the right to amend this Fiscal Plan.

However, if implemented, the August Agreement would grant COFINA an ownership interest in 53.65% of the PSTBA, which will be used to fund debt service payments on new COFINA bonds that will be distributed to existing COFINA senior and subordinated bondholders under a COFINA plan of adjustment (the "COFINA Plan"). COFINA would also receive "first dollars" collected from the pledged SUT until it has received an amount equal to 53.675% of the PSTBA

[3] Subject to revision based on ongoing negotiations.

(unless certain conditions are satisfied on a quarterly basis after 2024). The annual 53.65% PSTBA is illustrated in the table below.

EXHIBIT 4: THE COFINA SETTLEMENT DEBT SERVICE ($M)



SUMMARY OF PROPOSED SECURITIES TERMS[4]

The proposed new COFINA securities honor all property terms of the Settlement in Principle Agreement, including the following:

- The 53.65% Pledged Sales Tax Base Amount ("PSTBA") cash flow through and including 2058 (40 years) is fully allocated to the New COFINA Bonds.

Chapter 4.

- All pre-FY19 BNYM cash is allocated to COFINA and subsequent deposits are split according to the Settlement in Principle percentage splits.

- All current COFINA holders receive new closed Senior Lien Bond secured by the 5.50% pledged SUT.

No parity debt may be issued other than refinancing bonds that produce debt service savings in each year for COFINA (the "ABT Test"). In accordance with PROMESA, the Securities Terms also seeks to create long-term market access for the Commonwealth with an expanded subordinate lien ABT.

4 Based on presentation "COFINA Plan of Adjustment" dated August 7, 2019 published in Oversight Board's website. These terms are subject to revision based on ongoing negotiations.

New COFINA Senior Lien Bonds

All COFINA holders to receive their recovery in the form of Senior Lien Bonds. The overview of Senior Lien Bonds is as follows:

- COFINA holders will receive Senior Lien Bonds
- Senior Lien Bonds designed to enhance liquidity for investors

4.1
- New COFINA Bonds in the Senior Lien would have a senior pledge of the 5.50% SUT up to the 53.65% PSTBA COFINA portion
- All bonds to bear fixed rates on a pro-rata basis which will include:
    - Current Interest Bonds (“CIBs”) (pay cash interest); and
    - Capital Appreciation Bonds (“CABs”) (accrete non-cash interest until maturity)

Closed Lien

- Parity Bonds permitted to refinance Senior Lien Bonds if Annual Debt Service not increased in any year, final maturity not extended and debt service held below portion of 53.65% PSTBA allocated to the Senior Lien Bonds.

Senior Lien Securities

- Senior Lien on 5.50% Pledged SUT to fund COFINA 53.65% portion of PSTBA from “first dollars”.
- All Bonds begin to accrue interest beginning 8/1/2018 (dated date)
- CIB Term Bonds maturing in years 10, 14, 20 and 25 (2028, 2032, 2038 and 2043)
    - First sinking fund on 2028 maturity commences in 2019; annual sinkers thereafter
    - Term Bond sizes ranging from $995 Million to over $3.8 Billion
- CAB Term Bond maturing in 40 years (2058)
    - First sinking fund on term bond commences in 2043; annual sinkers thereafter
    - Term bond initial par value of ~$2.7 Billion

EXHIBIT 5: SENIOR LINE BOND TERMS

Senior Lien Current Interest Bond Terms			Senior Lien Capital Appreciation Bond Terms			
Year	Par	Cpn/Yld	Year	Initial Value*	Accreted Value	Yield
Total/Avg	$9,249,560,000.00	4.543%	Total/Avg	$2,697,682,642.20	$15,401,229,579.75	5.500%
2028	995,875,000.00	4.350%	2058	2,697,682,642.20	15,401,229,579.75	5.500%
2032	1,206,510,000.00	4.500%				
2038	3,212,925,000.00	4.550%		Average Coupon/Yield		4.759%
2043	3,834,250,000.00	4.600%		Duration Weighted Yield to Par		5.022%

*Assumes CAB Initial Value of 8/1/18

Call Provisions

- 2028 CIB – non-call
- 2032 CIB – Par call commencing 2025 (7-year call)
- 2038 CIB – Par call commencing 2028 (10-year call)
- 2043 CIB – Par call commencing 2028 (10-year call)
- 2058 CAB – Callable at 107.5% AV 2028 through 2032, 105% AV 2033 through 2037, 103% AV 2038 through 2042, 100% AV 2043 through maturity (10-year call at 107.5% AV with declining premiums to 100% AV in year 25).

Debt Service Reserve Fund

- None required, given "first dollars" flow of funds structure for the 53.65% PSTBA to COFINA

Rights of Acceleration

- New COFINA Bonds shall not have any rights of acceleration
- Ratings and Rating Metrics
- No ratings required for confirmation of COFINA POA or thereafter; two ratings to be sought
- As noted, Bonds designed to comply with investment grade rating criteria for coverage and ABT metrics.

SUT quarterly collections range tightly between 22-27% of the total annual SUT collections.

PART II: Context for Puerto Rico's current economic and fiscal challenges

Chapter 5.

LONG-TERM ECONOMIC TRENDS

Before being battered by the most powerful hurricane to strike the Island in almost a century, Puerto Rico's economy had been in an acute structural decline for over a decade, the Government had defaulted on debt exceeding the size of Puerto Rico's annual GNP, and nearly half of Puerto Ricans lived below the national poverty line. The reasons for these problems are multiple, but the root causes stretch back decades.

On June 25, 1938, Congress legislated to authorize the Puerto Rico Legislature "to create public corporate authorities to undertake slum clearance and projects, to provide dwelling accommodations for families of low income, and to issue bonds therefor."[5] Bonds issued by public corporations did not constitute debt of the Puerto Rican insular government. This federal legislation permitted Puerto Rico to dramatically increase its debt capacity. By 1947, the Puerto Rico Water Resources Authority (today PREPA) placed the largest debt issuance of any agency or public corporation in the U.S while Puerto Rico was dramatically poorer than mainland jurisdictions.

In the 1940s and 1950s, led by Operation Bootstrap, Puerto Rico's economy grew rapidly, and productivity increased by 5% per annum as it transitioned from an agricultural-led to a manufacturing-led economy. This transition was anchored to the institutionalist economic policy adopted in Puerto Rico during the governorship of Rexford G. Tugwell. However, as economic performance began to decline in the 1970s, the Federal Government adopted two significant policies to help Puerto Rico shore up its economy.

First, transfer programs increased dramatically, particularly as Puerto Rico started receiving Nutritional Assistance Program (PAN) funding, eventually providing, in aggregate, a portion of residents' personal income that was twice the U.S. mainland average.

Second, in 1976, Section 936 of the Federal tax code was introduced to promote investments by companies that could transfer their "intangible assets" to Puerto Rico, and thereby shift profits to the Island. These Section 936 companies, which were mostly in pharmaceuticals and life sciences, became a pillar of Puerto Rico's economy, creating valuable local supply chains, local banking deposits, and contributing substantial tax revenue.

In 1996, Congress decided to end Section 936, gradually phasing it out by 2006. In the face of an anemic local private sector, the Government also expanded its employment to the point that by 2000, 30% of Puerto Rico's jobs were in Government. Large sectors like water, electricity and ports are still run by public corporations, and have consistently crowded out private investment. This crowding out is partly the result of the institutionalist policies instituted long ago. There is also pervasive cross-subsidization between the Government and public corporations and other parts of the public sector that obfuscates financial management and accountability. As a result,

[5] U.S. Statute at Large, 75th Cong. 3rd Session, Ch. 703, June 25, 1938, 52 Stat., p. 1203.

today Puerto Rico underperforms on all important measures of a modern economy, including educational attainment, cost of electricity, quality of water, tax compliance, and labor market participation.

To promote the private sector, the Government undertook a broad tax incentives policy that led to a highly complex web of subsidies and special tax arrangements.

Government revenues suffered and became increasingly hard to forecast. To make up for this recurring and growing budgetary shortfall, the Commonwealth turned to debt markets. As investor appetite began to wane, the Government turned to securing new debt by pledging various revenue streams. The result was a highly complex financial structure that limited transparency and financial accountability and management.

When the Great Recession hit in 2008, Puerto Rico's economy was already in a fragile fiscal and financial position. Since then, the economy has continued to worsen – Puerto Rico has seen its GNP shrink by 20%, and the Island's population has fallen by 10%. Today, Puerto Rico is much poorer relative to the U.S. than it was in 1970.

PART III. Puerto Rico's path to fiscal and economic sustainability[6]

MACROECONOMIC AND DEMOGRAPHIC TRAJECTORY POST-MARIA[7]

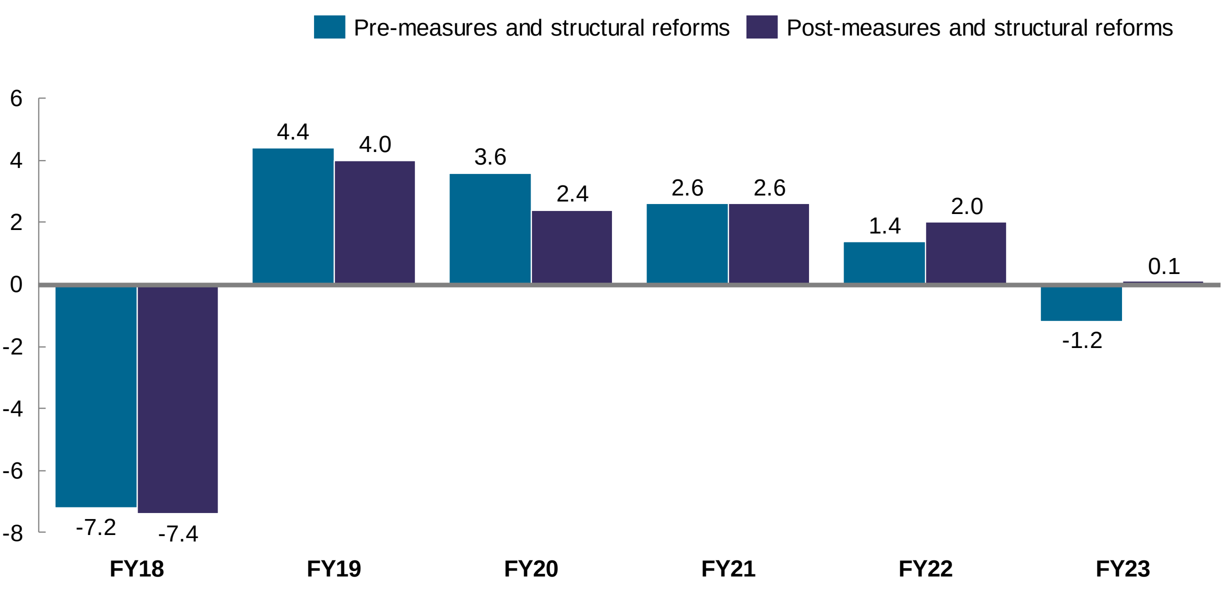
On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria struck Puerto Rico, causing unprecedented humanitarian, economic, and infrastructure-related damages and upending the daily lives of Puerto Rico's over 3 million residents. Thousands of residents were left homeless, basic utilities were completely shut down, and schools, hospitals, and businesses were destroyed. Tens of thousands of Puerto Ricans fled the Island. The Federal Government's response has become one of the largest and most complex disaster recovery efforts in U.S. history.

Chapter 6

Hurricanes Irma and Maria have created a new economic reality for Puerto Rico, drastically impacting the years to come. Given this context, the Fiscal Plan projects there will be macroeconomic volatility in the wake of the storms. In FY2018, there is a significant decline in GNP, followed by a partial bounce-back in FY2019 due to disaster relief funding, then a return to slightly above trendline by FY2023 due to the impact of structural reforms.

EXHIBIT 6: REAL GNP GROWTH RATE, BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS, INCLUSIVE OF DISASTER RELIEF SPENDING

Real GNP Growth Rate, %



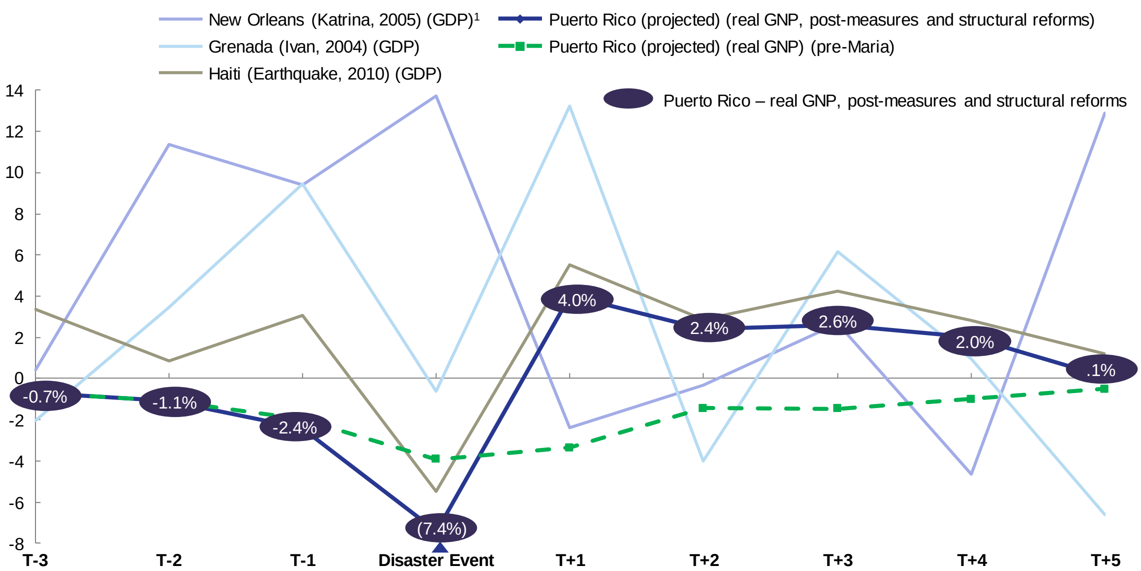
[6] This section does not purport to discuss all of the variables that may impact the level of sales and use tax

[7] General economic data relative to those indicators of economic activity which correlate most closely with the level of consumption of goods and services and, thus, the level of Commonwealth Sales Tax revenues.

This trendline has similarities to the growth trendline faced by other jurisdictions that have suffered from major natural disasters (**Exhibit 7**).

EXHIBIT 7: PUERTO RICO'S PROJECTED GROWTH TRAJECTORY COMPARED TO OTHER JURISDICTIONS AFTER NATURAL DISASTERS

Puerto Rico's projections track with other areas suffering from natural disasters, T = year of shock; constant local currency units (LCU) unless otherwise stated; year on year change



1 Katrina figures not adjusted for inflation

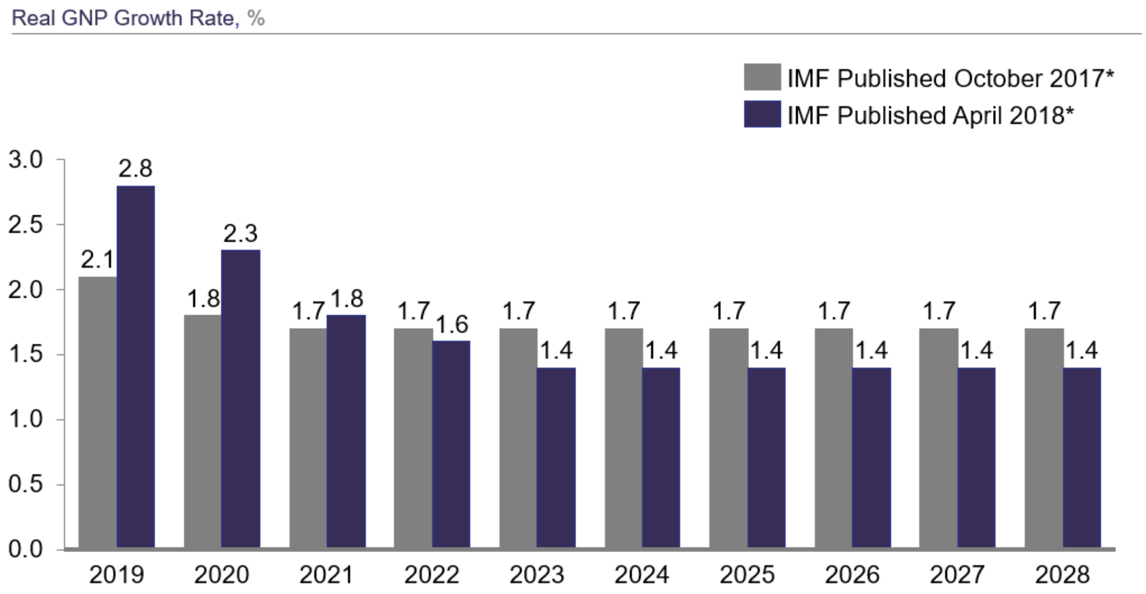
SOURCE: World Bank, Bureau of Economic Analysis, and ECCB

As part of the revision requested by the Oversight Board, new and updated data has been incorporated in the Commonwealth's macroeconomic model, including actual consumer price inflation for Puerto Rico in fiscal year 2018, new data on actual and projected future reconstruction spending, and other updated source data used in macroeconomic projections.

The source for the forecasts of world oil and food prices and United States inflation and gross domestic product used in the macroeconomic projections is the International Monetary Fund's World Economic Outlook (WEO). The June 29, 2018 Certified Plan included forecasts from the October 2017 vintage of the WEO. After the fiscal plan was first certified on April 19,2018, the IMF published an updated WEO in late April 2018. This edition of the WEO included a marked downward revision in medium term economic growth for the United States, from 1.7% to 1.4%, citing lower potential growth in the outer years of the forecast following a temporary strong expansion caused by recent fiscal policy changes in the United States. U.S. Treasury has rejected the IMF's view that tax cuts will provide the U.S. economy only a temporary boost and is projecting a stronger economic outlook since it believes that U.S. policies, including the productivity-boosting blend of tax reform and regulatory relief, will result in more sustainable economic growth. This revision has a material negative impact on the macroeconomic forecast for Puerto Rico. There has been no methodological change to the macroeconomic model; all changes reflect only the incorporation of new information into the existing model.

The financial model relies on the IMF WEO forecast, but the Congressional Budget Office (CBO) 10-year economic projections offer an alternative source for economic projections. The CBO forecast is also widely utilized by forecasters as one input for determining growth. The Government has modeled its financial projections utilizing both the IMF WEO and CBO forecasts, but for illustrative purposes and in order to reasonably compare to the June 29, 2018 Certified Fiscal Plan, we will only reference in this document figures derived utilizing the IMF WEO forecast in this document.

Exhibit 8: Real GNP Growth Rate Comparisons (IMF World Economic Outlook)



*The IMF forecasts are 5 year forecasts and years 2024-2028 are a continuation of 2023.

Exhibit 9: Real GNP Growth Rate Comparisons (CBO)

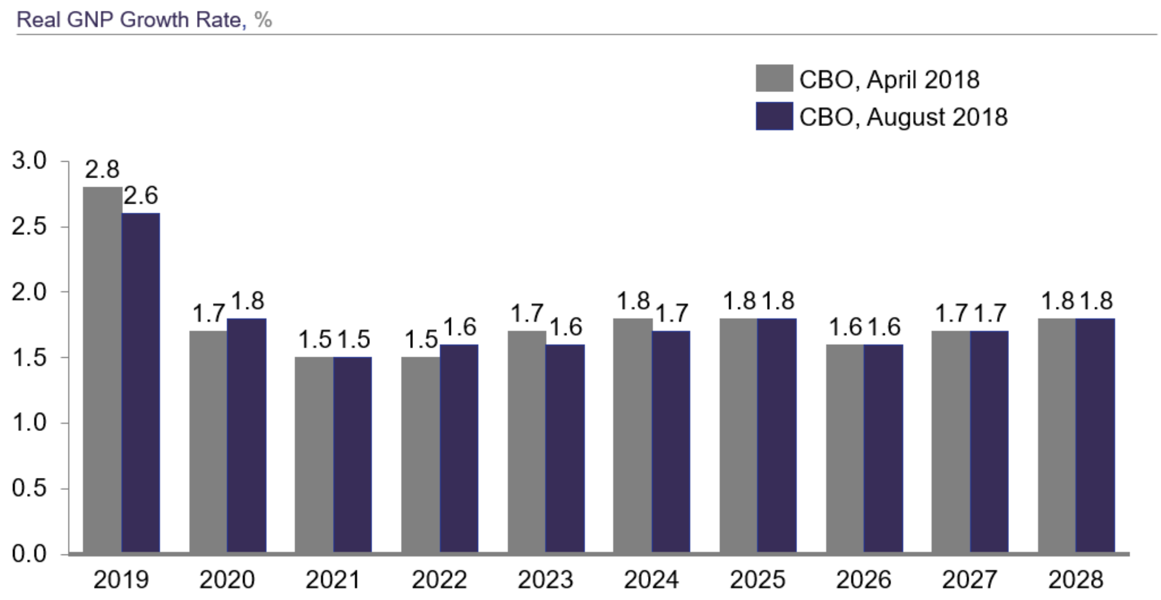
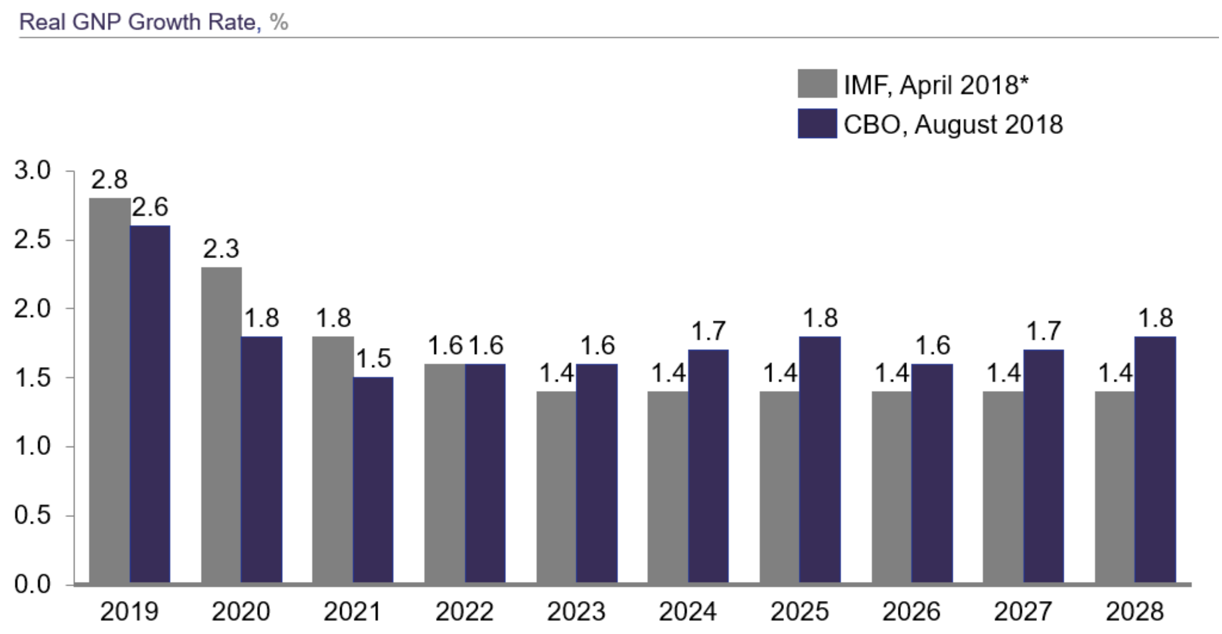


Exhibit 10: Real GNP Growth Rate Comparisons (Most recent IMF and CBO forecasts)

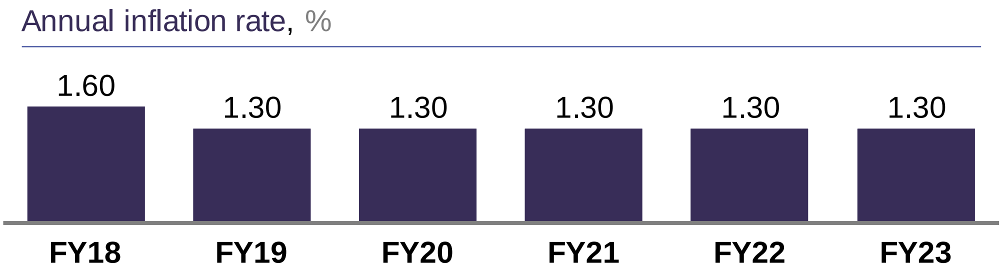


*The IMF forecast is a 5 year forecast and years 2024-2028 are a continuation of 2023.

The economic outlook model, which forecasts GNP growth, primarily relies on a comprehensive data set on the Puerto Rican economy from 1965 to 2017. It includes dozens of variables that collectively describe the Puerto Rican economy (e.g., growth, population, capital stock, etc.),[8] and is largely impacted by four major factors: (a) the pre-hurricane trendline of Puerto Rico, (b) short- and long-term impacts from the storm on economic activity and capital stock, (c) the stimulating impact of disaster relief assistance *(discussed in Section 7.1)*, and d) proposed fiscal consolidation measures and structural reforms *(discussed in Section 7.2)*.

These factors result in a -7.4% decline in real GNP for FY2018, which is directionally in line with the Fiscal-Year (FY) activity of the Puerto Rican Economic Activity Index (EAI) – a metric that historically tracks closely with GNP. For Fiscal Year 2018, EAI was down 6.8% from the previous year. Projected inflation rates (**Exhibit 11**) serve as a proxy for the GNP deflator yielding nominal GNP growth rates of -5.9 to 5.4% each year, while real GNP grows in the range of -7.4% to 4.0% each year.

EXHIBIT 11: ANNUAL INFLATION RATE



6.1 Disaster relief Funding

In November 2017, the Government presented the **Build Back Better Plan** to Congress, which included a preliminary description of the damage caused by the onslaught of hurricanes Irma and María, along with an initial evaluation of the recovery funds required to rebuild Puerto Rico in a way that was stronger, smarter, and more resilient. On August 8, 2018, the Central Office of Recovery, Reconstruction and Resiliency (COR3)[9] delivered to Congress Governor Rossello's Economic and Disaster Recovery Plan as required by the Bipartisan Balanced Budget Act of 2018. The Government has expanded the discussion and methodology of Build Back Better Plan to continue directing the recovery processes to rebuild a new Puerto Rico.

The *Transformation and Innovation in the Wake of Devastation: An Economic and Disaster Recovery Plan for Puerto Rico* (the "Recovery Plan") outlines the Governor's vision for Puerto Rico's recovery built around four core principles: (1) promoting effective governance and

8 The forecast relies on a 60-year comprehensive dataset and applying statistical regressions to show the effects of multiple yet distinct inter-related components of past hurricanes, exogenous developments, and economic policies on growth and inflation

9 Following the devastation wrought on Puerto Rico in the wake of Hurricane María, Governor Rosselló signed Executive Orders Nos. 2017-065 of October 23, 2017 and 2017-069 of November 10, 2017. The Executive Orders directed the Puerto Rico Public-Private Partnership Authority to organize COR3 a division of the P3 Authority for the purpose assuming the principal responsibility of developing and implementing a strategic plan for the reconstruction of Puerto Rico after the passage Hurricanes Irma and María. The P3 Authority formalized the creation of the COR3 on December 8, 2017 pursuant to Resolutions 2017-39 and 2017-41 of the Board of Directors of the P3 Authority. The COR3 is based on best practices identified in the recovery and reconstruction efforts of the States of Louisiana and New York after Hurricane Katrina and Super Storm Sandy. The COR3 is also based on the successful Puerto Rico ARRA Program Management Office established within PRIFA in 2009 to direct the investment and deployment of funds awarded to Puerto Rico under the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 ("ARRA").

transparency, (2) investing in building the capacity needed both for reconstruction and for the future of Puerto Rico, (3) incorporating resiliency into everything that is built and done, and (4) pursuing innovation in our recovery wherever possible. The Recovery Plan is divided into 17 initiatives with the purpose of making Puerto Rico stronger and resilient, while guaranteeing a long term economic recovery.

Building on these principles, the vision for Puerto Rico seeks to define how we will fit into the economy, environment, and the society of the future at not only the national but also the global levels. Puerto Rico has much to contribute to America's success as a global leader, and the Recovery Plan sets the foundation for a strong, resilient, and thriving Puerto Rico. This plan addresses how Puerto Rico can accomplish this as (1) a source of the "Human Cloud," (2) a platform for innovation, (3) "open for business," (4) a connector of the Americas, and (5) a place that enhances the quality of life of the U.S. citizens of Puerto Rico. Each of these components of the vision strengthens the Island's ability to be a leader in a global economy.

The path presented in the Recovery Plan is not only essential to Puerto Rico's recovery and reconstruction, but also marks a key opportunity for America to correct course on the patchwork of separate unequal and incoherent federal laws and policies that have limited Puerto Rico from reaching its full potential to date. The plan presents an opportunity to build on the policies of fiscal stabilization and debt restructuring laid out in PROMESA and to invest in a way that revitalizes our island and people as an asset for America's national and global economic success.

In preparing the Recovery Plan, the Government of Puerto Rico has also taken into account the requirements of Section 21210(a)(6) of the Bipartisan Budget Act of 2018, Pub. L. 115-123, which establishes that the Recovery Plan must be certified by the Oversight Board to be consistent with the purpose set forth in section 101(a) of PROMESA (48 U.S.C. 2121(a)). Towards that end, a draft of the Recovery Plan was delivered to the Oversight Board during its development and the final version of Recovery Plan has been provided for their analysis in compliance with the Bipartisan Budget Act of 2018. The Oversight Board has yet to provide certification.

The recovery funding that Congress has appropriated to date should provide the resources needed to jumpstart this vision. The Government is fully committed to invest those federal resources responsibly and wisely and to take the actions necessary to modernize our government structures so that we can truly transform Puerto Rico. Toward that end, the COR3 will serve as a focal point for strategic thought and management of the recovery. This office will lead the implementation of the Governor's vision and coordinate with other stakeholders across the Island and across the nation to make it a reality.

In its development, COR3 worked closely with a long list of federal government agencies, the Homeland Security Operational Analysis Center (HSOAC, a federally funded research and development center operated by the RAND Corporation under contract with the U.S. Department of Homeland Security) , municipalities, the private sector, the nonprofit sector, and others to begin the process of developing and operationalizing this shared vision for Puerto Rico.

The Fiscal Plan incorporates updated information contained in the Recovery Plan.

Disaster spending tends to have a major stimulating effect on an economy post-crisis.[10] The Government anticipates the level of public and private disaster relief spending to be significant when compared to the overall size of the economy. Public and private disaster relief spending will impact the economy in two ways:

- **Stimulating impact over the life of the plan caused by spending on the Island that is expected to be nearly 100% of the projected 2018 GNP.** This stimulus can come in multiple forms such as construction companies hiring local, unemployed workers or workers from the mainland U.S. paying local withholding taxes and spending money for food and lodging.
- **Expected refurbishment of the capital stock on the Island.** The Fiscal Plan factors in the estimated damage to capital stock which is repaired, largely due to the infusion of federal and private monies. This infusion contributes to the bounce-back anticipated in FY2019 and for the increase in growth above pre-Maria trend thereafter.

The Fiscal Plan projects that approximately $86.8[11] billion of disaster relief funding in total, from Federal and private sources, will be disbursed in the reconstruction effort. It will be used for a mix of **individual assistance** (e.g., reconstruction of houses, personal expenses related to the hurricane such as clothing and supplies), **public assistance** (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of **the** Commonwealth's **share of the cost of disaster relief funding** (states often must match some portion of Federal public assistance spend[12]). **Exhibit 11** shows the different sources of disaster relief funding and expected rollout.

10 Relief aid after the Haitian Earthquake represented nearly 200% of overall GDP, providing a major economic "cushion" after the disaster. In Grenada, disaster aid equaled about 2/3 of GDP at the time, and despite declines immediately after the hurricane, revenues returned to pre-storm levels after about two fiscal quarters and growth rebounded quickly. The year after Hurricane Ivan (2005) Grenada's economy grew at a faster rate than any year since 1985, at a clip of 12.5%

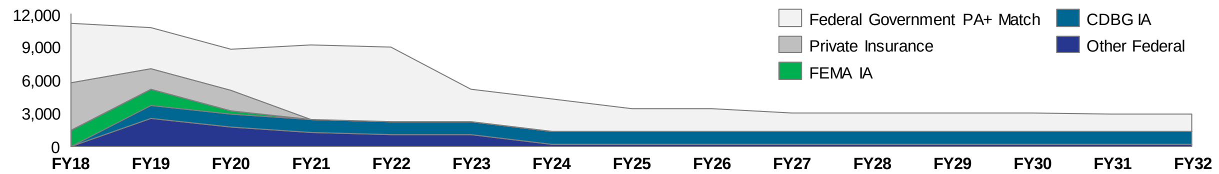
11 $3.8 billion of disaster relief funding is used for payment of cost share.

12 The Fiscal Plan only contemplates cost share paid for by the Commonwealth (and UPR), not PREPA / PRASA or HTA.

EXHIBIT 12: PROJECTED PRIVATE AND PUBLIC DISASTER RELIEF FUNDING AND ROLL OUT

	FY18 $M	FY19 $M	FY20 $M	FY21 $M	FY22 $M	FY23 $M	FY24 $M	FY25 $M	FY26 $M	FY27 $M	FY28 $M	FY29 $M	FY30 $M	FY31 $M	FY32 $M	Total $M	Total %
Federal Public Assistance + PR Match [1]	$5,397	$3,697	$3,697	$6,709	$6,709	$2,912	$2,912	$2,023	$2,023	$1,656	$1,656	$1,656	$1,656	$1,569	$1,569	**$45,843**	**55.2%**
	11.8%	8.1%	8.1%	14.6%	14.6%	6.4%	6.4%	4.4%	4.4%	3.6%	3.6%	3.6%	3.6%	3.4%	3.4%		
CDBG-DR	-	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	$1,150	**$16,096[4]**	**19.4%**
	-	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%		
FEMA Individual Assistance[2]	$2,310	$564	$330	-	-	-	-	-	-	-	-	-	-	-	-	**$3,204**	**3.9%**
	72.1%	17.6%	10.3%	-	-	-	-	-	-	-	-	-	-	-	-		
Private Insurance[3]	$4,299	$1,851	$1,850	-	-	-	-	-	-	-	-	-	-	-	-	**$8,000**	**9.6%**
	53.7%	23.1%	23.1%	-	-	-	-	-	-	-	-	-	-	-	-		
Other Federal Funding	-	$2,562	$1,769	$1,315	$1,133	$1,091	$224	$224	$224	$224	$224	$224	$224	$224	$225	**$9,888**	**11.9%**
	-	25.9%	17.9%	13.3%	11.5%	11.0%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		
Total	**$12,006**	**$9,824**	**$8,796**	**$9,174**	**$8,992**	**$5,153**	**$4,286**	**$3,397**	**$3,397**	**$3,030**	**$3,030**	**$3,030**	**$3,030**	**$2,943**	**$2,944**	**$83,031**	**100.0%**
Spending as a % of GNP	12.3%	9.5%	8.1%	8.1%	7.7%	4.3%	3.6%	2.8%	2.8%	2.5%	2.4%	2.4%	2.4%	2.3%	2.3%		
CDBG cost share	-	$271	$271	$271	$271	$271	$271	$271	$271	$271	$271	$271	$271	$271	$271		

Disaster aid by source of funding, $M



1 Includes $2B of CDBG funding allocated specifically for electrical infrastructure
2 $3.2B is current FEMA projected funding for Maria-related disasters
3 Based on analysis of data from the Office of the Insurance Commissioner of Puerto Rico on already processed payments
4 Excludes CDBG expected cost match which is included as an offset for cost share

The major sources of disaster relief funding are detailed below:

- **FEMA Disaster Relief Fund (DRF):** FEMA provides Individual Assistance to individuals and families who have sustained uncovered losses due to disasters. FEMA also provides Public Assistance for infrastructure projects and other permanent improvements including the Hazard Mitigation Grant Program.[13]
- **HUD Community Development Block Grant- Disaster Recovery (CDBG-DR):** HUD provides CDBG-DR funding that can be used for assistance to individuals (e.g., housing repair) and public assistance (e.g., infrastructure development), or can also be used by the Government for certain operational costs (e.g., to cover their disaster relief funding match.) The supplemental appropriation included in the Bipartisan Budget Act of 2018 requires that at least ~$2 billion be used to repair the Island's electric infrastructure.
- **Private insurance funding:** Large personal property and casualty losses have been incurred in the aftermath of Hurricane Maria. Analysis of data from the Office of the Insurance Commissioner of Puerto Rico was used to determine the amount that will be paid out to individuals and businesses for major damages.

13 The Fiscal Plan does not account for Operations and Administration funding, which only flows to federal agencies. Rather, it looks at funds that are spent for reconstruction on-Island, though those funds could flow to firms that are local or external

Disaster roll out for FEMA funds, CDBG funds, and private spending have been projected separately:

- **Roll out of Public Assistance and private insurance funds.** It will take time to disburse the total amount of funding, due to a combination of factors, including capacity constraints and permitting as well as other requirements necessary to access FEMA funding.[14] As a result, projected roll out declines over time and is spread out as shown in **Exhibit 12**.
- **Roll out of CDBG.** It is estimated to be even slower given the length of time typically needed for the application and disbursement process. As a result, projected roll out is also spread out over time, as shown in **Exhibit 12**.

In assessing the impact of disaster relief funding on the economy of Puerto Rico, it is important to isolate what portion of the disaster relief funding directly affects the local economy and what portion flows to entities off-Island. The Fiscal Plan estimates that, on a weighted average basis, 12.5% of funds will directly impact the local economy. This figure is estimated using a weighted individual and public assistance methodology (FEMA and non-FEMA) and is supported by FEMA's spending history. It is augmented by a 5.5% addition for on-cost logistics for a **total passthrough rate of 18%.**[15]

GNP is projected to rebound quickly in FY2019 in large part due to disaster relief funding, and this has a direct positive influence across most revenue categories.

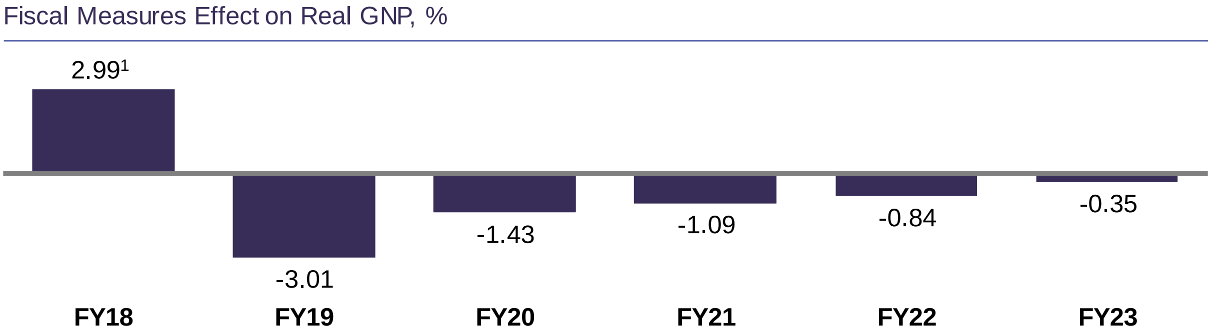
6.2 Impact of fiscal measures and structural reforms

By optimizing revenue collection and reducing government-wide expenses, **fiscal measures** seek to strategically streamline the Government of Puerto Rico to a size appropriate for its population. Such policy actions, inescapably, will generate a contractionary impact on the economy in the short term, but are necessary to drive fiscal sustainability in the long term. In fact, they drive significantly more in savings than revenues lost due to economic contraction. In addition, the economic contraction from cost-saving measures is limited in the long-term, while such measures are critical for providing long-term financial stability. The macroeconomic impact of the measures is summarized in **Exhibit 13**.

14 According to FEMA and Government reports, FEMA spend in Puerto Rico has been slower than anticipated in 2018. It has also been slower in Puerto Rico than in other natural disasters to which FEMA has responded in 2018 *(Economist, 2018)*

15 Estimated using local contracts (e.g., PREPA contract representing public project assistance and a multi-unit residential construction project representing Individual Assistance, which were estimated to have a 10% and 17% pass-through on the economy, respectively). Maintenance and repair of projects related to individual assistance have less specialized requirements and can expect a larger pass through from direct labor. Historical FEMA spending and the percentage of DHS contracts awarded to local Puerto Rican firms supported this figure. The pass-through is augmented by a 5.5% addition for on-cost additions to logistics based on a study of main contractor on-costs in multi-layered supply chains in the construction industry.

EXHIBIT 13: MACROECONOMIC IMPACT OF FISCAL MEASURES, INCLUSIVE OF DISASTER RELIEF SPENDING



1 Reflects one-time effects of NAP, RESTART, SUT Exemptions, Debt Moratorium, and FEMA individual assistance

The timing and impact of **structural reforms** is based on work done by the IMF on similar reforms implemented in Europe (e.g., Spain, Estonia), South America (e.g., Peru, Colombia), among other jurisdictions, utilities reform in Latin America, and broadly accepted metrics for measuring improvement in the World Bank's Ease of Doing Business Rankings. Structural reform benchmarks broadly come from nations or jurisdictions without monetary policy options and high informal labor markets.

A sustainable fiscal and economic turnaround depends entirely on comprehensive reforms. Only such reforms can drive growth in the economy, reversing the negative trend growth over the last 10 years and enabling the Island to become a vibrant and productive economy going forward. To reverse the negative economic trends, the Government will implement reforms in the following areas:

Human capital and welfare reforms will improve job creation, workforce participation, and the well-being and self-sufficiency of welfare recipients, resulting in a cumulative GNP impact of 0.30% by FY2023. The impact is enhanced in the long-term as K-12 education reforms begin adding an additional 0.01% GNP impact per year, resulting in an additional 0.16% uptick by FY2048 that continues growing in outer years (to 0.26% by FY2058).

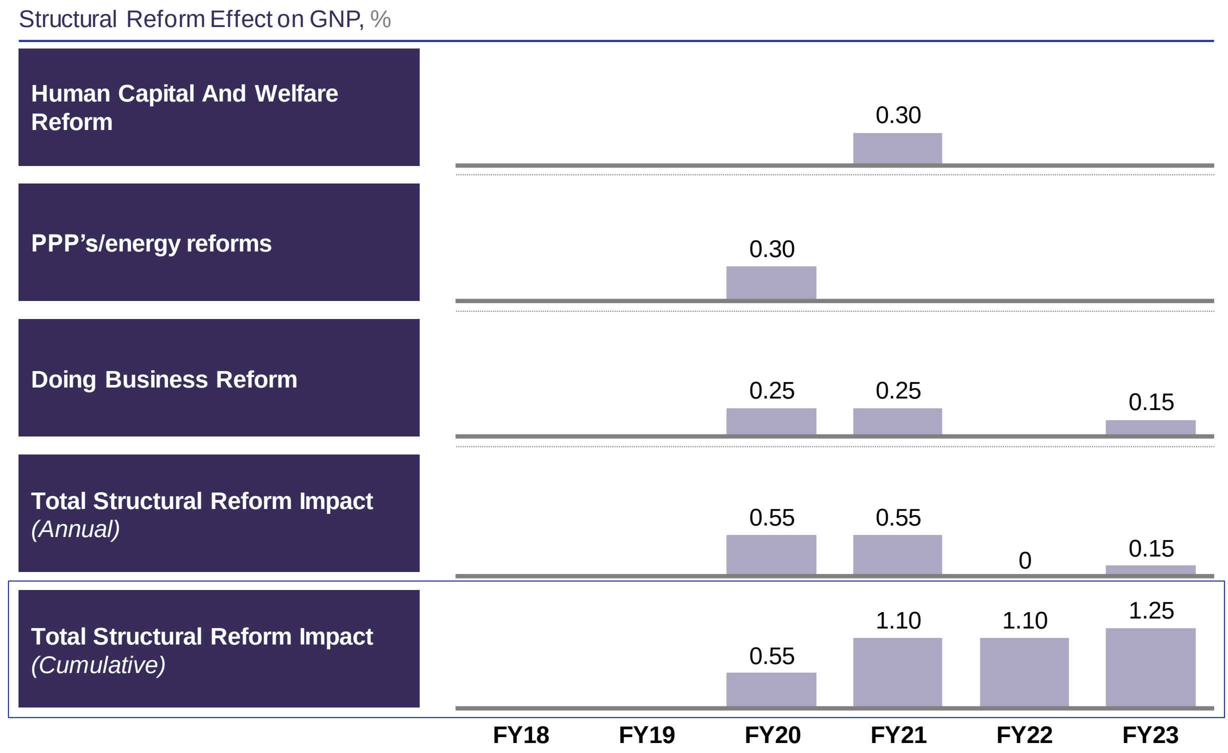
Ease of doing business reforms will improve conditions for economic activity and job creation, trading across borders, employment opportunities, and business vitality, resulting in a cumulative GNP impact of 0.65% by FY2023.

Power sector reforms will improve availability and affordability of energy for families and businesses, resulting in 0.30% cumulative GNP impact by FY2023.

Infrastructure reform and capital investment will improve the flow of goods, services, information, and people across the Island. It has not been scored to provide a specific GNP uptick, yet undoubtedly contributes a consequential uptick in the Island's long-term development.

The structural reforms are projected to result in a sustained 1.25% annual real GNP growth by FY2023. In the long term, education reforms are projected to add an additional cumulative 0.26% to GNP growth, making total impact 1.41% by FY2048 and 1.51% by FY2058. The reforms are crucial to placing Puerto Rico on a path to long-term structural sustainability.

EXHIBIT 14: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



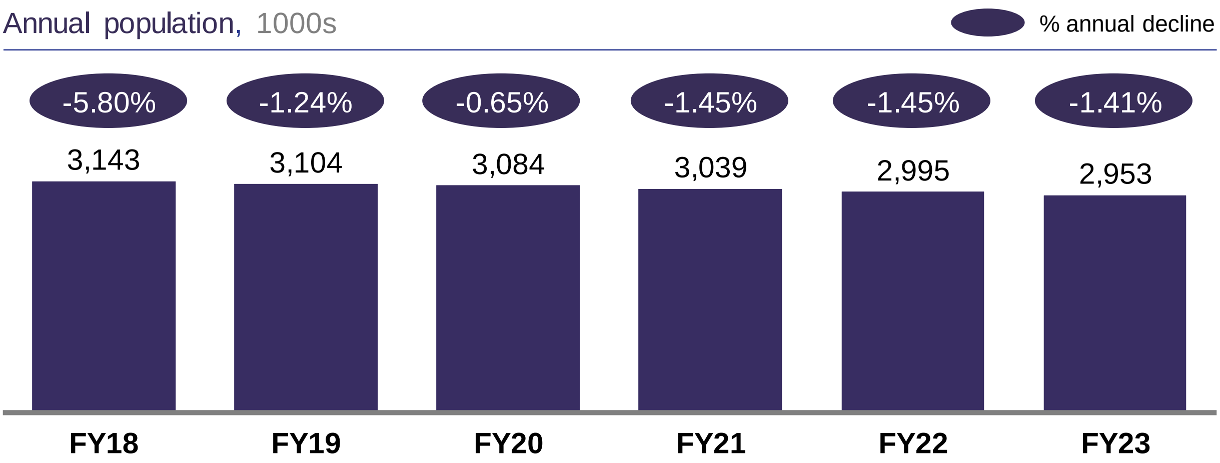
6.3 Population projections

In the past five years, Puerto Rico's population has trended downward by 1-2% every year as residents have left to seek opportunities elsewhere and birth rates have declined.[16] This trend accelerated after the storm. While some are projected to return as the Island rebuilds, population is still projected to decline over the period of the Fiscal Plan by ~11.2% over six years (**Exhibit 15**).[17] Much of this is based on estimated net departures in FY2018, while in the long term, population is projected to continue to decline, but at a rate closer to pre-hurricane trends. One key element of the population projection is the assumption that the low historical rate of immigration into Puerto Rico will continue.

16 Federal Reserve Bank of St. Louis Economic Research (FRED)

17 The Fiscal Plan adopts demographic projections calculated by the Oversight Board's demographer. The projections were initially presented in an Oversight Board listening session held on November 16, 2017 and have since been updated to incorporate the latest available migration data and economic growth projections, as well as real-time estimates of population loss since the hurricane (e.g. net airplane departures). This revision includes a correction due to a forecasting error included in the June 2018 Certified Fiscal Plan.

EXHIBIT 15: PROJECTED POPULATION CHANGE



Chapter 7. FINANCIAL PROJECTIONS[18]

7.1 Sales & Use Tax forecast

Baseline Sales and Use Tax (SUT): The SUT forecast is based on preliminary FY18 actual collections of $2.5 billion. This represents 10.5% of the 11.5% of the SUT rate. The remaining 1% belongs to municipalities. Based on a study performed by Hacienda in 2016, the capture rate is estimated at 67.9% which implies total SUT of $3.7 billion. The capture rate is assumed to remain constant.

In FY18 there were two emergency actions taken post Hurricane Maria that impacted SUT collections: (1) an exemption on prepared food SUT taxes; and 2) an exemption on small and medium businesses. Based on Hacienda's estimate, these two measures accounted for lost revenues of approximately $114 million. Separately, temporary economic activity associated with the recovery effort is estimated by Hacienda at $109 million for FY18. The net one-time impact of this $5 million positive adjustment is used to normalize the FY18 baseline.

SUT forecast for FY19 - FY32 is based on growing the normalized FY18 baseline by two factors: (1) Puerto Rico nominal GNP and (2) Puerto Rico population change. The decision to utilize two factors, GNP and population, for the first 15 years is due to the impact that the recovery spend through FY32 has on GNP growth relative to the competing factor of population decline. Once the impact of disaster spend winds down, the projection relies entirely on GNP growth. Studies of SUT revenue performance in New Jersey after hurricane Sandy and Louisiana after hurricane

[18] For illustrative purposes, financial projections referenced in this plan utilize the IMF WEO data released in April and the Article IV consultation data released in June 2018

Katrina both reflect sharp initial declines in revenue followed by rapid recovery and out-performance for 12-18 months with growth stabilizing or declining within a few years[19].

7.2 Sales & Use Tax Measures

In addition to the baseline, there are two measures that impact the SUT forecast. The first is increased compliance efforts which are expected to yield a 5% uplift on total SUT collections by FY22. It is phased in with impacts of 1% uplift in FY19, 3% in FY20 and 4% in FY21. The second measure relates to tax reform initiatives which impact the SUT directly:

- Elimination of the B2B SUT by FY2020
- Reduction of the tax rate on prepared foods transactions (e.g., at restaurants) paid for via electronic means from 11.5% to 7%

The projected value of these tax reductions is shown below (**Exhibit 16**).

EXHIBIT 16: SUT INITIATIVES INCLUDED IN PROPOSED TAX REFORM

Revenue Impact, $M	FY19	FY20	FY21	FY22	FY23	Total
Revenue Reductions						
Reduction of SUT on Prepared Foods	(79)	(87)	(87)	(87)	(87)	**(427)**
Phase Out of B2B Tax	(19)	(101)	(169)	(172)	(172)	**(633)**
Subtotal	**(98)**	**(188)**	**(256)**	**(259)**	**(259)**	**(1,060)**

By FY23, net of the additional collections generated by the increased compliance activities, the negative impact of these reductions is expected to be reduced to $119 million per year, growing at Puerto Rico nominal GNP.

[19] Conway McKenzie analysis, **Sales Tax Source for Hurricane Katrina:** http://www.rev.state.la.us/NewsAndPublications/Publications; **Sales Tax Source for Hurricane Sandy:** https://www.state.nj.us/treasury/omb/publications/17budget/index.shtml; **Population Source for Hurricane Katrina:** https://www2.census.gov/programs-surveys/popest/datasets/2000-2010/intercensal/state/; **Population Sources for Hurricane Sandy:** https://www.census.gov/data/datasets/2017/demo/popest/state-total.html; and https://www2.census.gov/programs-surveys/popest/datasets/2000-2010/intercensal/state/

EXHIBIT 17: PROJECTED SALES & USE TAX (10.5%)

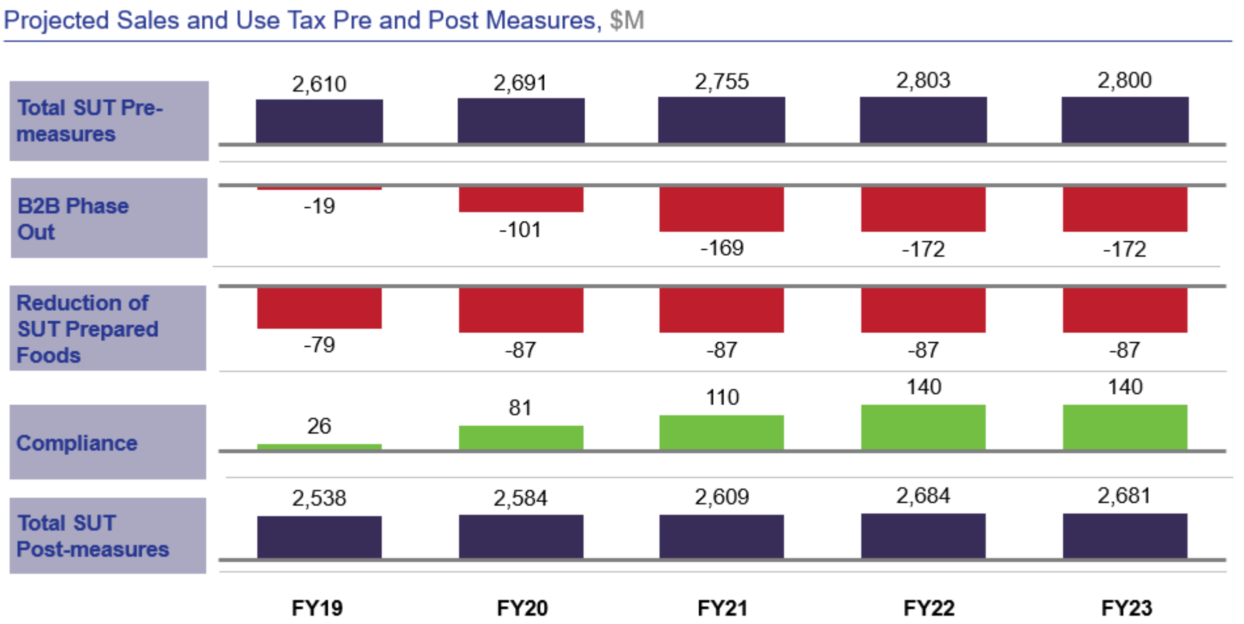
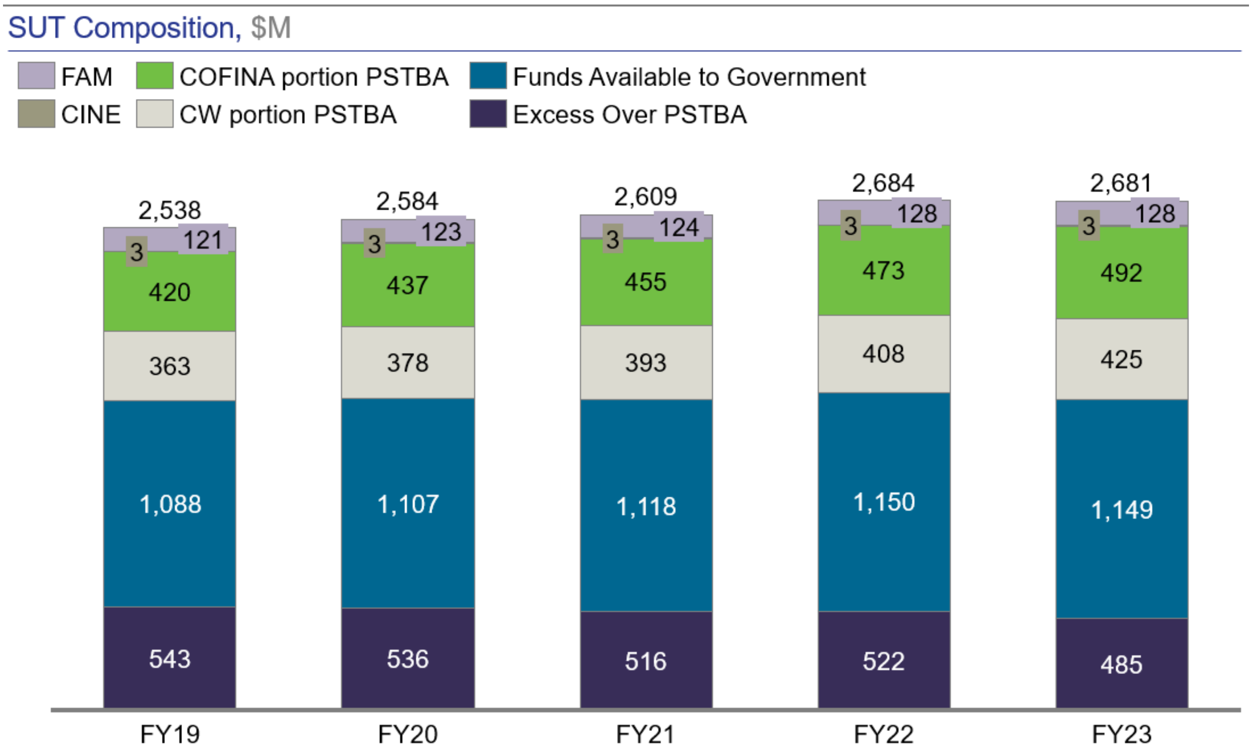


EXHIBIT 18: TOTAL SUT PROJECTION BUILD



The Excess Over PSTBA plus the Funds Available to Government, shown in Exhibit 18, equal the General Fund SUT revenue in the Fiscal Plan for the Commonwealth of Puerto Rico.

7.3 COFINA Recurring Operating Expenses

COFINA's ongoing operating expenses are necessary to ensure an independent operation. Operating expenses are composed of the following categories:

1. Board of Director Fees
2. Payroll and Fringe Benefits
3. D&O Insurance
4. Facilities
5. External Counsel Fees
6. External Auditor
7. Other miscellaneous operating expenses

Operating expenses will be paid by investment earnings derived from interest income generated by funds deposited in the COFINA bond trustee accounts held for the benefit of COFINA at BONY prior to distribution

EXHIBIT 19: COFINA PROJECTED DEFICIT/SURPLUS

Chapter 8. LONG-TERM PROJECTIONS AND DEBT SUSTAINABILITY ANALYSIS (DSA)

The DSA provides a framework to assess COFINA's long-term debt capacity, minimizing the risk of future default, and provides a framework for future market access. The DSA aims to provide a view of a sustainable level of debt.

Sales tax bonds are evaluated on the basis of taxable base and pledge, the legal structure of the proposed financing and financial metrics of the revenue pledge.

Key credit strengths:

1. Puerto Rico's economy is reasonably diverse
2. SUT is very broad with minimal exceptions
3. Senior bonds benefit from a closed lien
4. First (annual/quarterly) dollar flow of funds is stronger than usual monthly equal collection for various tax backed credits.

Key credit weaknesses:

1. Puerto Rico's per capita income and median household income are significantly below national medians.
2. Impact of long-term demographic and economic projections on discretionary expenses and personal consumption.

The COFINA settlement implies total debt service of $32.3bn over the 40-year period, vs. $65.3bn of total 5.5% SUT. The excess SUT (46.35% portion) flows to the Commonwealth and provides coverage for the contractual debt service related to the 53.65% portion. The 5.5% SUT is projected to average 2.0x the annual debt service over the 40-year period.

Exhibit 20 shows the projected 5.5% SUT and the PSTBA split in the proposed settlement between the Commonwealth and COFINA bondholders. The COFINA settlement involves the creation of Senior Lien New COFINA bonds ("New COFINA bonds"). Per the terms of the COFINA settlement, the New COFINA Bonds would have a senior pledge of the 5.50% SUT up to the 53.65% PSTBA COFINA portion. The "First Dollars" of funding in the proposed settlement will come from the pledged 5.5% SUT.

EXHIBIT 20: Illustration of Agent "Settlement in Principle" Allocations

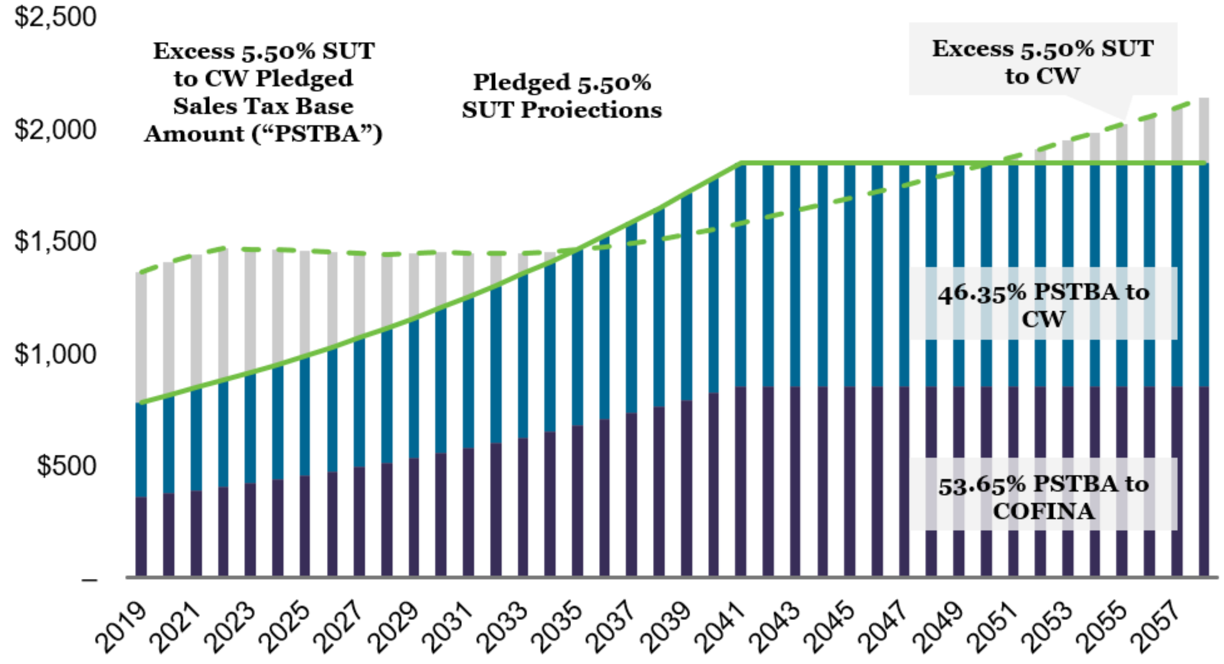


Exhibit 21 illustrates the COFINA settlement debt service in conjunction with the 53.65% of the PSTBA that COFINA bondholders will be entitled to per the terms of the settlement. The chart illustrates that the COFINA debt service fits within the 53.65% of the PSTBA throughout the 40-year forecast period.

EXHIBIT 21: DEBT SERVICE ($M)

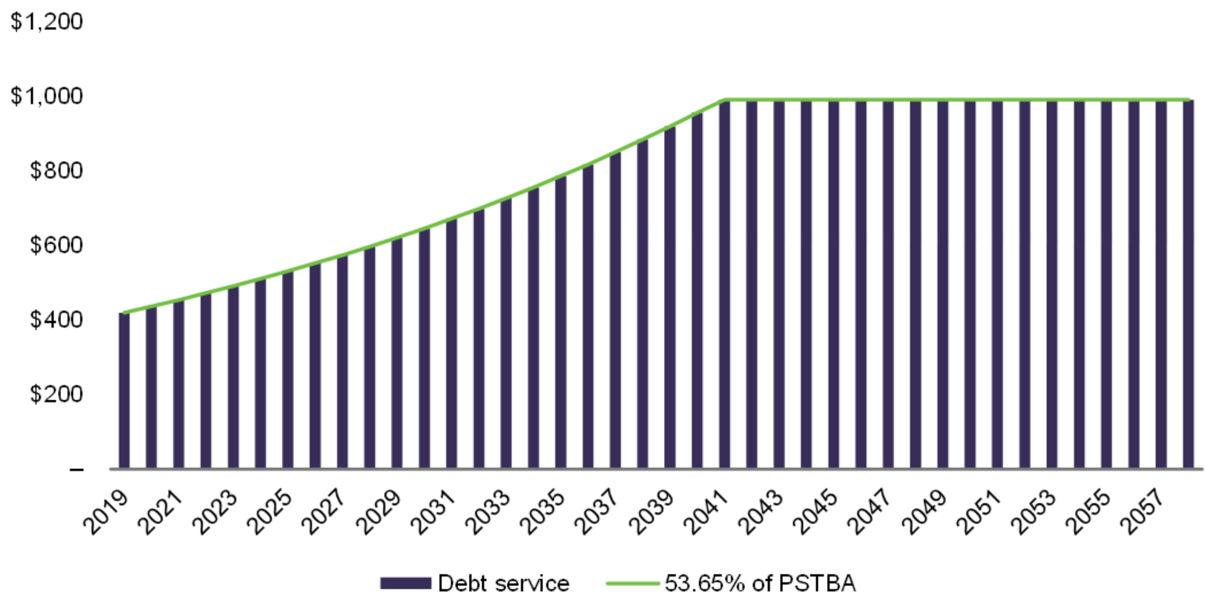
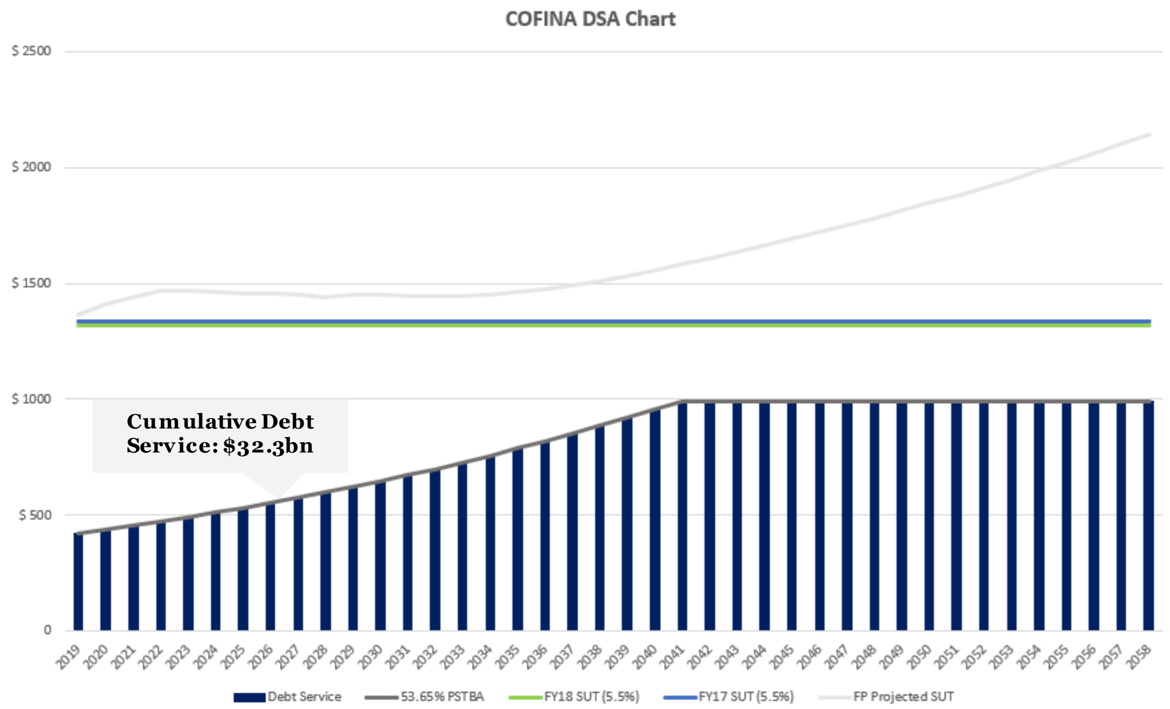


Exhibit 22 demonstrates the coverage ratio remains above 2.0x on a 10-year annual average, 20-year annual average, 30-year annual average and 40-year annual average basis.

EXHIBIT 22: DEBT SERVICE COVERAGE ($M)

	10 year average	20 year average	30 year average	40 year average
5.5% SUT	$1,443	$1,453	$1,520	$1,633
Debt service	$504	$626	$744	$806
Coverage ratio	2.9x	2.3x	2.0x	2.0x

EXHIBIT 23: THE COFINA DEBT SUSTAINABILITY ANALYSIS ($M)[20]



Breakeven Analysis – Using FY18 SUT collections as the base, we look at the constant annual rate of reduction in sales tax collections such that debt service is still fully covered by the 5.5% SUT pledge. Based on the debt service schedule provided, sales tax would need to decrease by more than 0.71% a year for SUT collections to be insufficient to cover debt service obligations. A comprehensive breakeven analysis is provided below.

[20] This exhibit supersedes and replaces exhibit 23 in August 27 COFINA Fiscal Plan to correct SUT forecast as presented in August 20, 2018 fiscal plan submitted to FOMB.

EXHIBIT 24: THE COFINA DEBT BREAKEVEN ANALYSIS